FDIC State Profile

Spring 2006

Illinois

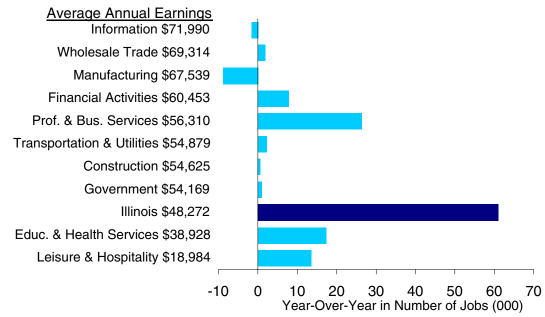
The Illinois economy continued to improve as job growth accelerated.

- Illinois added 61,000 jobs during the year ending fourth quarter 2005, and the state's quarterly job growth exceeded 1 percent for the first time in five years. All of Illinois metropolitan areas posted positive job growth, except **Rockford**.
- As of fourth quarter 2005, the Illinois unemployment rate declined to 5.4 percent, the state's lowest level since the 2001 recession. Jobless rates in almost every county improved from year ago levels.
- Employment in the professional and business services sector grew most rapidly at 3.2 percent and represented 37 percent of employment gains in the state during 2005. Moreover, workers in this sector reported earnings 16.7 percent above the state average of $48,272. Slightly more than half (56 percent) of Illinois new jobs in 2005 occurred in sectors with salaries that exceeded the state average (see Chart 1).
- Manufacturing job losses continued to weigh on the Illinois economy; about 8,900 jobs were lost year-over-year through fourth quarter 2005. Most job losses in this sector occurred in the electrical equipment appliances and fabricated metals industries. In addition, ripple effects from weakness in the auto sector likely will constrain employment opportunities among the state's auto manufacturers and parts suppliers.
- Statewide population growth continued to trail the nation, primarily because of net out-migration. Population declined in **Decatur** and remained flat in rural Illinois. Growth was strongest in Rockford and **Lake County**.
- Reflecting improved labor market conditions, per capita personal income growth improved to 4.5 percent during third quarter 2005, up from 1.6 percent a year ago -- in line with the national rate (see Chart 2).

Office market conditions improved, while residential market activity slowed.

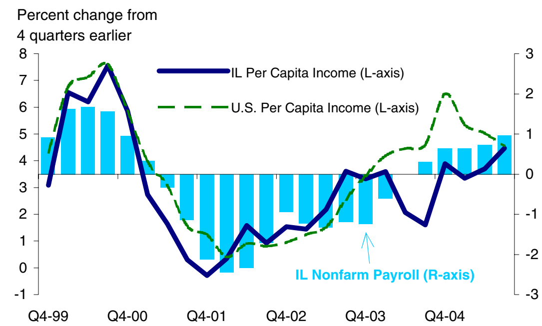
- Home prices in the state continued to appreciate at a moderate pace while existing home sales declined (see

Chart 1: Illinois Posts Job Gains in a Number of High Paying Sectors



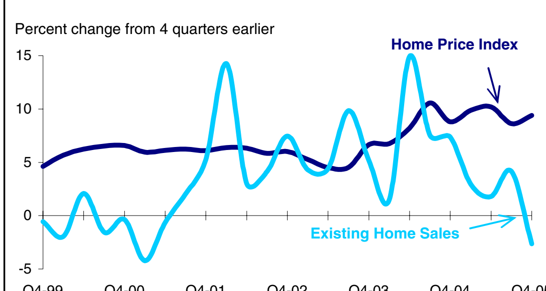
Sources: Bureau of Labor Statistics and Bureau of Economic Analysis

Chart 2: Improved Employment Conditions in Illinois Aided Income Growth



Sources: Bureau of Economic Analysis /Haver Analytics

Chart 3: Home Price Appreciation Continues at Moderate Pace While Home Sales Decline



Sources: Office of Federal Housing Enterprise Oversight, National Association of Realtors.

Chart 3). During fourth quarter 2005, year-over-year price appreciation in the **Chicago** metro area increased to 10.7 percent compared with 13.0 percent for the nation. Growth in condominium sales in this urban area slowed to 5.6 percent from a year ago, while single-family homes declined 2.5 percent.

- Overall, through the end of 2005, commercial real estate (CRE) vacancy rates in the Chicago metro area remained high, although slightly improved from year-ago levels.[1] Chicago's downtown and suburban office vacancy rates have declined as employment has strengthened.

Illinois community institutions reported stable performance.

- During 2005, Illinois-based community institutions earned $1.2 billion, an increase of $163 million (16 percent) from 2004.[2] Slightly more than half (56 percent) of the state's 639 institutions reported higher annual earnings compared with the prior year.

- Aggregate profitability, as measured by return on assets (ROA), for community institutions improved in 2005, as higher net interest income and lower noninterest expense outpaced the decline in noninterest income (see Table 1). Approximately 47 percent of all community institutions reported a higher ROA.

- Net interest margins (NIMs) for Illinois community institutions declined slightly as the yield curve flattened in 2005. Despite strong growth in typically higher yielding CRE loans, increased funding and deposit costs reported by the state's community institutions offset improved asset yields.

- Because of a higher reliance on core deposit funding, the downward pressure on margins from the flattening yield curve has been less pronounced among Illinois community institutions than among community banks elsewhere in the nation. Core deposits tend to reprice more slowly than other types of bank funding when short-term interest rates rise. Nonetheless, continuation of a flat yield curve could constrain the state's community bank NIMs.

Credit quality remained stable.

- During 2005, delinquency ratios for the state's community banks remained low and improved across all major loan categories, except home equity loans (see Chart 4).

- Commercial real estate (CRE) loan concentrations among all insured institutions in the Chicago metro area continued to rise; median CRE loans to Tier 1 capital increased 23 basis points during 2005 to 343 percent. In response to growing concentration levels among some FDIC-insured institutions nationwide, Federal banking regulatory agencies recently proposed supervisory guidance for CRE loan portfolios. The proposed guidance addresses a number of issues including the need for banks with high CRE concentrations or growth in CRE lending to have strong risk management practices, sound underwriting standards, and capital levels commensurate with risk. The comment period for the proposed guidance has been extended to April 13, 2006.

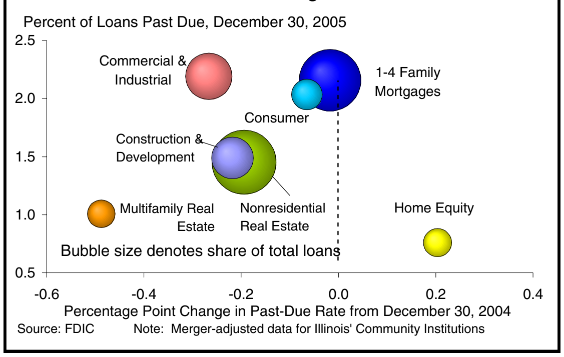
Table 1: Lower Expenses and Higher Net Interest Income Boosted Profitability

Income statement contribution (percent of average assets)	Calendar year 2004	Calendar year 2005	Percentage Point Change
Net Interest Income	3.41	3.45	0.04
Noninterest Income	0.75	0.72	-0.03
Noninterest Expense	-2.67	-2.64	0.03
Provision Expense	-0.21	-0.14	0.07
Security Gains & Losses	0.03	0.01	-0.02
Pretax Net Income	1.32	1.41	0.09
Income Taxes	-0.30	-0.30	0.00
Net Income (ROA)	1.02	1.11	0.09

Source: FDIC

Note: Merger-adjusted data for Illinois' Community Institutions

Chart 4: Delinquency Rates Declined Across Most Loan Categories



[1] According to Torto Wheaton Research.
[2] Community institutions are insured banks and thrifts with less than $1 billion in assets, excluding new (less than three years old) and specialty banks. Data adjusted for merger activity.

Illinois at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q4-05	Q3-05	Q4-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.0%	1.0%	0.6%	0.1%	-1.2%
Manufacturing (12%)	-1.3%	-1.5%	-0.7%	-2.4%	-5.3%
Other (non-manufacturing) Goods-Producing (5%)	0.5%	-0.3%	0.3%	-1.7%	-1.0%
Private Service-Producing (69%)	1.7%	1.5%	1.1%	0.9%	-0.6%
Government (14%)	0.1%	0.9%	-0.1%	-1.0%	-0.9%
Unemployment Rate (% of labor force)	5.4	5.7	6.1	6.2	6.7

Other Indicators	Q4-05	Q3-05	Q4-04	2004	2003
Personal Income	N/A	4.9%	4.4%	3.3%	3.2%
Single-Family Home Permits	15.4%	4.9%	-4.0%	4.1%	3.9%
Multifamily Building Permits	32.1%	15.6%	-21.5%	-17.2%	10.4%
Existing Home Sales	-2.6%	4.2%	7.4%	11.8%	2.3%
Home Price Index	9.4%	8.6%	8.8%	8.6%	5.3%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	10.87	8.48	5.99	6.23	6.68

BANKING TRENDS

General Information	Q4-05	Q3-05	Q4-04	2004	2003
Institutions (#)	707	714	746	746	769
Total Assets (in millions)	377,154	369,349	340,635	340,635	575,364
New Institutions (# < 3 years)	16	16	8	8	8
Subchapter S Institutions	205	203	190	190	184

Asset Quality	Q4-05	Q3-05	Q4-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.59	1.66	1.63	1.63	1.78
ALLL/Total Loans (median %)	1.07	1.08	1.11	1.11	1.15
ALLL/Noncurrent Loans (median multiple)	1.78	1.62	1.68	1.68	1.54
Net Loan Losses / Total Loans (median %)	0.03	0.01	0.08	0.09	0.10

Capital / Earnings	Q4-05	Q3-05	Q4-04	2004	2003
Tier 1 Leverage (median %)	9.41	9.37	9.13	9.13	8.92
Return on Assets (median %)	0.88	0.97	0.94	0.96	0.97
Pretax Return on Assets (median %)	1.10	1.27	1.19	1.25	1.25
Net Interest Margin (median %)	3.70	3.72	3.76	3.71	3.67
Yield on Earning Assets (median %)	5.96	5.81	5.46	5.33	5.57
Cost of Funding Earning Assets (median %)	2.29	2.11	1.67	1.62	1.92
Provisions to Avg. Assets (median %)	0.06	0.06	0.09	0.09	0.12
Noninterest Income to Avg. Assets (median %)	0.50	0.51	0.49	0.52	0.58
Overhead to Avg. Assets (median %)	2.75	2.63	2.66	2.60	2.63

Liquidity / Sensitivity	Q4-05	Q3-05	Q4-04	2004	2003
Loans to Assets (median %)	63.2	63.5	61.8	61.8	59.7
Noncore Funding to Assets (median %)	18.6	18.4	16.6	16.6	16.1
Long-term Assets to Assets (median %, call filers)	12.9	13.6	14.7	14.7	16.1
Brokered Deposits (number of institutions)	235	236	214	214	186
Brokered Deposits to Assets (median % for those above)	5.0	4.4	4.2	4.2	4.0

Loan Concentrations (median % of Tier 1 Capital)	Q4-05	Q3-05	Q4-04	2004	2003
Commercial and Industrial	63.3	64.9	63.3	63.3	64.0
Commercial Real Estate	150.4	150.4	146.3	146.3	136.8
Construction & Development	19.6	20.7	18.9	18.9	15.5
Multifamily Residential Real Estate	7.9	7.9	7.5	7.5	6.4
Nonresidential Real Estate	103.2	104.9	104.2	104.2	94.2
Residential Real Estate	174.4	174.4	187.4	187.4	184.0
Consumer	30.7	31.7	34.4	34.4	40.2
Agriculture	44.8	43.2	36.2	36.2	38.2

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits ($ millions)	Asset Distribution	Institutions
Chicago-Naperville-Joliet, IL-IN-WI	309	239,618	< $250 million	529 (74.8%)
Bloomington-Normal, IL	27	9,549	$250 million to $1 billion	143 (20.2%)
Davenport-Moline-Rock Island, IA-IL	46	5,609	$1 billion to $10 billion	29 (4.1%)
Rockford, IL	23	5,598	> $10 billion	6 (0.8%)
Peoria, IL	46	5,321		